



"Domestic LPG Marketing in Indian Perspective"

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Abstract: Liquefied Petroleum Gas (LPG) marketing commenced in India during the year 1955 at (Bombay) Mumbai by then M/s Burma Shell. Since then LPG market in India has evolved over the last five decades or more from a miniscule level to the present position of over 14 crore customers on Industry basis. LPG marketing activities are expected to grow further because of the focus on expansion in rural areas. A survey was carried out for 2000 People in and around Bangalore city. This paper focuses on increase in number of LPG users and its marketing strategies adopted.

I. INTRODUCTION

There is a network of over 13,000 LPG distributors in the country to meet the requirement of LPG consumers. LPG marketing is unique. LPG consumers are tied to LPG distributor with very little freedom to choose their distributors. Such a vast and complex marketing activity requires proper discipline among the LPG distributors from whom the entire LPG customers are serviced.

LPG distributorships are appointed by Public Sector Oil Marketing Companies (OMCs) and are governed by the terms & conditions of agreement entered into between the OMCs & the Distributors. The various clauses of the distributorship agreement spell out the several responsibilities that have to be performed by the distributorships as well as by the OMCs. Besides the responsibilities spelled out in the distributorship agreement, there are operating policies, procedures and practices that are required to be followed by the distributors to serve the LPG consumers.

LPG, the Liquefied Petroleum Gas is an integral part of every household and hence the budget at home. Any rise or fall in the cost of LPG cylinder affects the financial plan of a family. The most common use of LPG is for cooking both domestic as well as commercial. In addition to this LPG is also used for running automobiles and for refrigeration etc. LPG which is the mixture of hydrocarbon gases is the product obtained after refining crude oil (petroleum). Most of the crude oil is imported in India.

The present debate is regarding the hike in the price of non-subsidized LPG gas cylinders. LPG cylinders are available 4 sizes – Domestic cylinders 5 kg and 14.2 kg, Commercial Cylinder 19 kg and Industrial Cylinder 35 kg. For domestic use 12 LPG cylinders are available at subsidized rates whereas for commercial and industrial purposes rates are determined by the market price. The cost of subsidized gas cylinder in the capital is Rs 414.

Very recently the cost of non-subsidized cooking gas cylinder (LPG) weighing 14.2 kg has been hiked by Rs. 16.50 per cylinder. The cost of non-subsidized LPG was Rs 906 per cylinder and after

the hike it will cost Rs. 922.50 in Delhi. A non-subsidized cylinder is the 13th cylinder bought by consumer after consuming 12 LPG cylinders in a year. There is no limit on buying non-subsidized cylinders which are available at market rates. In the month of February the price of non-subsidized cylinder was decreased by Rs. 107 and in the last month the rates were cut by Rs. 23.50 per cylinder.

The reason of hike given to the common man is an increase in the international crude oil price because of the current Iraq crisis. Few months back the cost of LPG was hiked because of an increase in the average import cost and depreciating value of Rupee as compared to US dollar.

It has been said that oil marketing companies in India are suffering from a daily revenue loss of Rs 271 crore on the sale of domestic LPG, diesel and kerosene. The total revenue loss last year was Rs 1,39,869 crore

Major Players in LPG

IOCL has the largest number of refineries and capacity to produce LPG and enjoys 49% market share. Then comes BPCL, HPCL, ONGC and GAIL. Most of the private companies could not survive in LPG market because of heavy subsidy given by government in Domestic LPG segment. Such a heavy subsidy leads to illegal use of domestic LPG.

All petroleum products (petrol, diesel, PDS Kerosene and LPG) are the major source of energy and important part of economy. Thus involvement of government in deciding the price, their production and distribution is necessary. Government regulates the price of Diesel (retail sales), PDS Kerosene and Subsidized Domestic LPG.

In India major challenge and reason for price hike is more demand and less supply. Government keeps struggling to meet the ever increasing demand of energy. More than 77% of India's petroleum needs are met by importing it from other countries and therefore price change or any other change in the international market is bound to impact the domestic market.

Again no one else but such changes at international level are imposed on a common man. We keep paying more to fulfill the revenue loss, maintenance and profit. [2]

II. LITERATURE SURVEY

As per a paper prepared by Chairman, Integrated Research & Action for Development (IRADe) on “Increasing LPG Price without Burdening Consumers”, higher price of LPG will incentivize people to use it more effectively. There are many ways in which gas use can be reduced: a lower flame, a wide bottomed vessel, covering the pot and lighting it after the pot is in place, all can help reduce gas consumption. Much of the cooking energy is lost due to radiation and convection. This can be prevented by covering the pot with another inverted pot. Also stacking pots utilizes the heat that transfers upwards due to hot gases or vapors rising from the lower pots. With these principles, a set of cooking pots called “EcoCooker” that saves 50 to 70 percent of gas in cooking using gas flame size appropriate to the size of the cooking vessel has been developed in the country. The EcoCooker has a 6-litre food capacity, sufficient for a family of 5 or 6 members. It can be used for bulk cooking, of dal, rice, vegetables, meat, and all items that can be cooked by steaming or boiling. For these items, the EcoCooker will save three-quarters of the fuel one would otherwise consume, as well as half the time one would otherwise spend standing at the stove.

Keeping in view the total subsidy of Rs. 555.44 per cylinder presently (as on October 1, 2013) given on subsidized domestic LPG cylinders, the Group recommends that:

The limit for subsidized cylinders be reduced from the present 9 to 6 cylinders per annum to each household and the DBTL scheme be restricted to identified families based on an exclusion criteria. The DBTL scheme be implemented throughout the country for Direct Transfer of Subsidy to identified families within next one year. The price of subsidized domestic LPG be raised by Rs. 250/cylinder immediately and the balance subsidy be phased out over the next 2 years through gradual price increase. Piped natural gas to homes be actively promoted in urban areas. As the country continues to be heavily dependent on imports of LPG, the methodology of fixing refinery gate price of Domestic LPG should continue on IPP basis.

Subsidies to Liquefied Petroleum gas in India - Following repeated statements regarding the government’s intention to extend the application of DBT to LPG subsidies, on April 5, 2013, the government announced the National Committee on DBT’s decision to introduce direct transfer of LPG subsidy in 20 districts, effective May 15, 2013, with the stated objective of extending the system to all districts of the country by October 2013. Under

the system proposed, households would order an LPG cylinder from their gas distributor, receive an amount equivalent to the current subsidy amount via electronic transfer to their bank account, then pay the full (unsubsidized) price for the cylinder in cash on delivery. Following a three-month switchover period, electronic transfer of the subsidy would be mandatory in all selected districts, and in order to be eligible for continued receipt of subsidy, the head of household would have to enrol in the Aadhaar program, obtain a UID number, submit their bank account and UID details to the relevant OMC (opening an account where they did not previously possess one) and link their bank account to their UID number.

As currently designed, DBT for LPG simply represents a shift in the modality of subsidy payment—the scheme does not decouple receipt of subsidy from fuel consumption (subsidy receipt is contingent on purchase of LPG), nor does it apply any form of targeting in selecting beneficiaries (retaining the highly regressive distribution of the existing subsidy). In addition, the program introduces a series of unrecognized costs and inefficiencies into the system of subsidy disbursement (some intrinsic to the program’s design and others a function of the mode of implementation); key among them being increased costs of administration and time costs for beneficiaries associated with confirming and collecting the subsidy.

On April 5, 2013 the central government announced that it intended to implement DBT for LPG in 20 districts effective May 15. On April 23 it was reported that the MoPNG had informed the Standing Committee on Petroleum and Natural Gas that the lack of progress in matching Aadhaar numbers to beneficiary bank accounts could delay the launch (Mehdudia, 2013a). On May 9, the Cabinet Committee on Political Affairs formally approved the implementation of DBT for LPG in the selected pilot districts, and postponed the implementation date to June 1. Implementation of the program then began in 18 districts on June 1, with adoption in the remaining two districts temporarily postponed due to elections. On August 12, the MoPNG then announced that the scheme would be extended to a further 35 districts effective September 1, 2013, increasing the total number of participating districts to 5520 (Mehdudia, 2013b). On September 2 it was announced that the scheme would be extended to an additional 235 districts in four further phases, 21 leading to a total projected coverage of 289 districts across 18 states.

Hypothesis

Hypothesis of the present study are:

Hypothesis 1:

H0: There is no change in increase in domestic LPG consumption from 2003 to 2014. The reasons are as under:-

- Subsidy
- Pricing
- Strategies

H1: There is an increase in domestic LPG consumption from 2003 to 2014. The reasons are as under:-

- Subsidy
- Pricing
- Strategies

Hypothesis 2:

H0: There is no change in the access to LPG in number of households from year 2004 to 2014.

H1: There is increase in the access to LPG in number of households from year 2004 to 2014.

III. RESULTS AND ANALYSIS

Table 1: Increase in domestic LPG consumption from 2003-2014.

	Frequency	Percent	Valid Percent	Cumulative Percent
subsidy	980	49.0	49.0	49.0
pricing	842	42.1	42.1	91.1
strategy	178	8.9	8.9	100.0
Total	2000	100.0	100.0	

Table 2: Increase in the access to LPG in number of households from year 2004 to 2014.

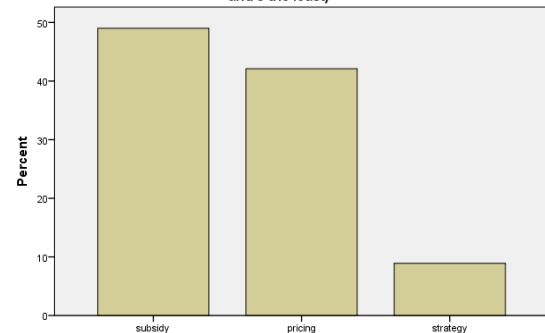
	Frequency	Percent	Valid Percent	Cumulative Percent
strongly agree	580	29.0	29.0	29.0
agree	600	30.0	30.0	59.0
strongly disagree	378	18.9	18.9	77.9
disagree	442	22.1	22.1	100.0
Total	2000	100.0	100.0	

Table 3: Reliability Test on Questionnaire (Reliability Statistics)

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.911	.922	15

The reliability of the questionnaire is 91.1 %

There is an increase in domestic LPG consumption from 2003 to 2014. The reasons are as under (Mention the Priority with 1 being highest 2 being moderate and 3 the least)



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Figure 1 : Results of survey for increase in price

There is an increase in domestic LPG consumption from 2003 to 2014. The reasons are as under (Mention the Priority with 1 being highest 2 being moderate and 3 the least)

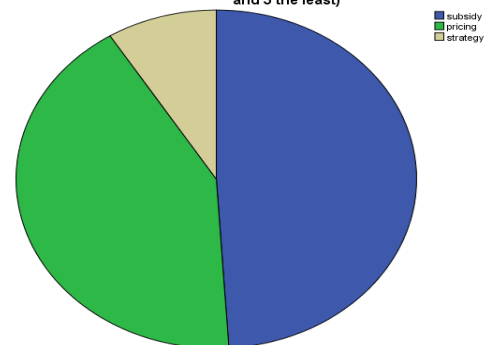


Figure 1 : Pie chart Results of survey for increase in price

IV. CONCLUSION

India's imports of oil are increasing which has reached up to 80 % and is likely grow further. At the same time an unprecedented rise in oil price on the world market. Oil price volatility has also increased. Though future oil prices are difficult to predict, they are generally expected to rise. Given our increasing dependence on imports, domestic prices of petroleum products have to reflect the international prices. The Government has not permitted PSU oil marketing companies to pass global prices to domestic consumers. It has been examined the impact of the formula-based prescriptive pricing of major petroleum products devised by Govt from time to time. The present

system of price control on petrol and diesel in particular has resulted in major imbalances in the consumption pattern of petroleum products in the country, has put undue stress on finances of PSU OMCs as well as of the Government. It has also led to withdrawal of private sector oil marketing companies from the market. This has affected competition in the domestic petroleum product market.

Intervention through price control necessitates that someone bears the financial costs. The issue therefore is to assess the costs and incidence of the burden of alternative mechanisms on different groups in the society. On whom the burden falls depends on the policy and the instruments used. A viable long-term strategy for pricing major petroleum products is required. A viable policy has to be workable over a wide range of international oil prices and has to meet the various objectives of the government. It should limit the fiscal burden on government and keep the domestic oil industry financially healthy and competitive. The petrol is largely an item of final consumption. An analysis of the trend of petrol consumption by the automobile owners reveals that increase in prices of petrol can be borne by motorized vehicle owners. Accordingly, we recommend that petrol prices should be market determined both at the refinery gate and at the retail level.

The implications of increase in retail price of HSD on various groups of consumers and do not find any compelling reason to subsidize them. Therefore, we recommend the price of diesel should also be market determined both at the refinery gate and at the retail level. MS and HSD used in cars, including SUVs, are for final consumption. The higher excise duty on petrol compared to diesel encourages use of diesel cars. While greater fuel efficiency of a diesel vehicle should not be penalized, a way needs to be found to collect the same level of tax that petrol car users pay from those who use a diesel vehicle for passenger transport. An additional excise duty based on it should be levied on diesel car owners. A transparent and effective distribution system for PDS kerosene and domestic LPG can be ensured through UID/Smartcards framework. Until it becomes operational, the following measures need to be taken. There is disparity in per capita allocation of PDS kerosene amongst States, as also decline in the percentage of households using kerosene.

The null hypothesis is rejected in both the cases based on the results H1: There is an increase in domestic LPG consumption from 2003 to 2014. The reasons are as under:-

- Subsidy

- Pricing
- Strategies

is accepted and H1: There is increase in the access to LPG in number of households from year 2004 to 2014.

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